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No. 79050

Supreme Court, U. S.
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In the

Supreme Court of the United States

IRVING S. SAVERSLAK, Individually and as Trustee under TRUST AGREEMENT dated October 1, 1959, as Amended,

Petitioner,

vs.

DAVIS-CLEAVER PRODUCE COMPANY, a Missouri Corporation,

Respondent.

PETITIONER'S REPLY BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

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3A Corbin on Contracts, §766, pp. 538-539 10

5 Williston on Contracts, Third Edition, §683, pp. 270-271 10

1 Patent Law & Practice, Einhorn, Patent Licensing Transactions (1979) §2.09 p. 2-33 4

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ARGUMENT

I.

THE "BEST EFFORTS" CLAUSE CANNOT WITH IMPUNITY BE ABANDONED AT WILL BY RESPONDENT-LICENSEE.

Respondent totally fails to answer, Petitioner's argument that the Court of Appeals was wrong: in disregarding this Court's opinion in *Eclipse Bicycle Co.* v. *Farrow*, 199 U.S. 581; in concluding that the "best efforts" clause (¶13) would restrain Respondent from marketing similar or competitive products; and in failing to recognize that the principles enunciated in *Eclipse* will not, in any way, forbid the sale of a substituted product which is neither better than nor different from the patent product, but simply require Respondent to account for royalties or damages for the abandonment of the licensed product (A. p. 14). Respondent states at page 3 of its Brief:

> "So what the case law on 'Best Efforts' stands for is that license cannot play 'dog in the manger'. The Licensor is entitled to use this clause as a shield against the fraud that would otherwise be perpetrated on him—and cancel the license, but not extort royalties on a non-patented product.—"

This is a mis-interpretation. What the law stands for is that a conglomerate may not take the fruits of an individual's invention, create a market for itself running into millions of dollars and then abandon its contract and royalty obligations by foisting an inferior but indistinguishable product on the market and offer to cancel the license before the expiration of its term. The leading cases, *Eclipse*[1], *Carbo-Frost*[2] and *Mechanical Ice Tray*[3] do not permit the licensee to "nullify, at his pleasure, a provision of the license which is of vital importance to the licensor" merely by returning the license agreement; nor does it permit the "legal fraud" of escaping all liability to promote or exploit—merely by returning the license agreement. What these three leading cases are saying is that a licensee to escape liability under the "best efforts" provision is required to do *both*: (1) relinquish his license and (2) substitute a product which is *both* better than and different from the licensed product; otherwise to permit the licensee to escape liability merely by tendering termination of the license agreement would negate the very purpose and legal effect of the best efforts clause.

Substituting an inferior product for the purpose of avoiding royalties is a violation of the best efforts provisions of the contract; failing to return or rescind the contract would pyramid the default to the point of perpetrating a legal fraud on the licensor—two wrongs are not necessary to accomplish an action for breach of contract. In *Eclipse* the Court stated at page 590:

> "—Taking into account the fact that the defendant did not make due efforts to carry out his application, and that it certainly does not appear that the Morrow device was so much, if at all, better than

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[1] *Eclipse Bicycle Co.* v. *Farrow,* 199 U.S. 581, 26 S.Ct. 150, 50 L.Ed. 317 (1950).

[2] *Carbo-Frost Inc.* v. *Pure Carbonic Corp.,* 103 F.2d 210 (1939) cert. den. 308 U.S. 569 (1939) 60 S.Ct. 83, 84 L.Ed. 478 (1939).

[3] *Mechanical Ice Tray Corporation* v. *General Motors Corporation,* 144 F.2d 720 (1944) cert. den. 324 U.S. 844 (1944) 65 S.Ct. 679, 89 L.Ed. 1406.

Farrow's, that due business diligence did not require the company still to push the latter, we are of opinion that on this item it properly was held to account."

Summarizing the law as it has followed said three leading cases, it is stated in 1 *Patent Law & Practice, Einhorn, Patent Licensing Transactions* (1979) §2.09, page 2-33:

> "If the competition which an exclusive licensee faces comes from something not commercially better than the licensed device, the licensee must meet the competition with the licensed article.[4] If the licensee sees fit to overcome the competition by purchasing the right to make the competing article, he cannot substitute the competing article for the licensed device without violating the implied covenant to use his best efforts to effect the purposes of the license. But, if the competition comes from a better article than the one licensed, the licensee need not try to meet it with the licensed device when there is no hope of success. Faced with such a business situation the licensee may, if he can, obtain and exercise the right to make or use the competing article.[5]
>
> "It has been held that where a license specified that the licensee would continuously use its best efforts to promote the use of the licensed devices, the licensor could recover royalties for licensee's use of competing devices, in the absence of evidence that the competing devices were superior and substantially different."[6]

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[4] *Mechanical Ice Tray Corp.* v. *General Motors Corp.*, 144 F.2d 720, 64 U.S.P.Q. 589 (2d Cir. 1944).

[5] Ibid.

[6] *Carbo-Frost, Inc.* v. *Pure Carbonic, Inc.*, 103 F.2d 210, 40 U.S.P.Q. 588 (8th Cir. 1939).

It is obvious that Petitioner does not seek to coerce Respondent into using Petitioner's patent when Respondent did not want to do so. Petitioner does not seek to extort royalties on a non-patented product. What Petitioner seeks, and is entitled to, are the royalties as damages which are legally due him under the teachings of *Eclipse*, *Carbo-Frost, Inc.*, and *Mechanical Tray Corporation.* It can be seen from what has been said in the Petition and this Reply that case law on "best efforts" stands for much more than providing only "that the licensee cannot play 'dog in the manger' ". It stands for much more than being only a "shield" against the fraud that would otherwise be perpetrated by the licensee on the licensor. It stands for much more than affording to licensor the sole remedy of cancelling the license. To assert to the contrary as Respondent attempts at page 3 of its Brief simply misconceives the issues. Patently, no "shield" at all is afforded to Petitioner where Respondent after approximately 11 years of operation under the license agreement, captured the market, and then after attempting to terminate the license, substituted, as the Court of Appeals found, a product "so nearly identical that Davis-Cleaver found it unnecessary to even notify its wholesale customers of the adoption of the latter process." (App. A, p. 15a). In the face of Respondent's concealment, cancellation of the license would be of no moment, particularly where Respondent had further breached its contract obligations by failing to prominently use the Plaintiff's trademark "Maxlotte", thus destroying any possible good will or identification which would have transferred to Plaintiff in any attempt to market the patented product. The District Court stated (B 27a- 28a):

> "* * * Defendant did not advise its customer or the trade of its changeover from the Saverslak wheat-

glutin process to the new salt-slurry process. They there not informed that there had been a change.

* * *

It is quite possible that Saverlak could have mounted a successful merchandising program predicated upon the *superiority* of the wheat-glutin process under the Maxlotte name, to the new Davis-Cleaver process which involved an excess of salt in order to avoid a patent, which salt was subsequently masked with a sweetener. Defendant's failure to live up to its contract obligation to prominently display the Maxlotte trademark and to reinforce the identification of the wheat-glutin process with the Maxlotte name has deprived the plaintiff Saverslak of this competitive and marketing advantage."—(Emphasis Added)

Respondent was not exculpated from its "best efforts" obligations by the mere offer to terminate the license where it had substituted for the licensed product with an indistinguishable competitive product which is neither better than nor different from the licensed product.

Again, the Respondent drags out a red herring in referring to the purported probable infringement of the Carlin patent. Both the trial court and Court of Appeals have already twice told the Respondent that the licensed product did not infringe upon the Carlin patent, and that its injection into the case created a "spurious issue" (A. p. 5a, B. 23a). In any event, the issue here, is not at all one of infringement. *Carbo-Frost, Inc.,* 103 F.2d 210, 223.

After finding against Petitioner on the best efforts issue, the trial court stated (B. 29a):

> "Saverslak is left with his original process, his original patents, some good years and some bitter memories. Central-Soya emerges with a better profit pic-

> ture and some possible troubling of whatever passes for conscience in the corporate world today."

It was the duty and function of the Courts to apply the law to maintain a standard of corporate conscientiousness which is not "troubling". Application of this Court's long established rule in *Eclipse* would have cured that troubling conscience. This court should not avoid that opportunity.

II.

THE AWARD OF DAMAGES FOR TRADEMARK NON-USE SHOULD BE RESTORED.

The breach by Davis-Cleaver of its contract obligation to mark all packages with the trademark "Maxlotte" was wilfully, intentionally and admittedly breached. The trial court awarded damages in the amount of $220,506.00 (B. p. 34a-35a) which judgment was reversed by the Court of Appeals (A. 17a) upon the ground that by continuing to perform under the contract the Court of Appeals *assumed* that Saverslak led Davis-Cleaver to believe ¶22 would not be enforced and stated:

> "We may reasonably assume that Saverslak's silent acquiescence and acceptance of the royalties led Davis-Cleaver to believe that Paragraph 22 would no longer be enforced and that it could safely continue to omit the trademark" (A. p. 13a).

The Court of Appeals further *conjectured* that:

> "Had Saverslak instead raised a timely objection the matter might have been resolved with minimum expense and effort." (A. p. 13a)

This was pure conjecture and the assumption made by the Court of Appeals was in the face of a record wherein no evidence was presented of either any conduct

causing Davis-Cleaver to act to its detriment or upon any reliance upon a belief that Saverslak would not someday enforce his rights to damages.

The Court of Appeals stated (A. pp. 11a, 12a):

> "Saverslak continued to hold this right during at least the initial part of the seven year period during which he silently accepted royalties. At some point, however, which we need not fix, Saverslak's silent acquiescence ripened into an intentional relinquishment of his right to enforce the trademark."

In the face of a ten year Statute of Limitation for breach of a written contract, Saverslak had an additional three years before there could be any extinguishment of his right to damages unless some equitable right was proven to intervene. No such facts exist in the record.

In response, Davis-Cleaver draws a homely analogy:

> "Saverslak also criticizes the Court of Appeals for 'speculation' in not fixing the 'point of 'intentional' relinquishment'—that would be as useful as trying to determine the time the leak started when the tire is flat."

The analogy is inapposite. We know when the "leak started" in 1963 and we know that a statutory period predetermine that the tire would become "flat" in 10 years; Petitioner contests the speculation that some unknown element, still unidentified, caused the tire to go flat before its predetermined statutory period.

Respondent's argument that the license was no longer exclusive after Maxlotte commenced fabricating its own oven-roasted boneless turkey, is also inapposite. A non-exclusive license was reserved in the License Agreement and used only in the Chicago area by Maxlotte. (B. 22a).

A license can have the attributes which make it exclusive in the legal sense though it is not the only license. There may be another license which is non-exclusive. When this is so, the exclusive license does not cover the entire fold, but it binds the licensor not to enlarge the scope of other licenses already granted or reserved. In *Mechanical Ice Tray Corporation*, 144 F.2d 720, 725 the Court stated:

> "••A license can have the attributes which make it exclusive in the legal sense though it is not the only license. There may be one or more previous licenses which are non-exclusive and by contrast with the exclusive license are called bare. When this is so the exclusive license does not, of course, cover the entire field but binds the licensor not to enlarge thereafter the scope of other licenses already granted or increase the number of licenses. It is plain that these parties intended that the defendant should to that extent be free from competition—".

Respondent relies on *Pasquel* v. *Owen* 186 F.2d 263 (8th Circuit, 1950) in attempting to define the *"election"* available to Petitioner. Saverslak was not required, upon Davis-Cleaver's breach, to cancel the agreement nor did he waive any rights under the contract. This is clear under applicable law. Respondent's entire argument is erroneously based on the theory that the Petitioner's continued performance was a "conclusive election". (B. p. 4) An election of what? Respondent does not elucidate.

The answer is succinctly stated in *17 Am. Jur. 2d* (contracts) §447, p. 908:

> "Any act by the injured party indicating an intent to continue will operate as a conclusive election, not depriving him of his right of action for a breach which has already taken place, but depriving him of any excuse for ceasing performance on his own part."

That is the "conclusive election" to which the Court spoke in *Pasquel* v. *Owen* heavily relied upon by Respondent when it stated:

> "Any act indicating an intention to continue under the contract will operate as a conclusive election." (B. p. 5)

Saverslak chose to continue performance and not cancel the agreement.

The nature of the election is explicated by treatises and other authorities to the same effect:

3A Corbin on Contracts, §766, pp. 538-539;
5 Williston on Contracts, Third Edition, §683, pp. 270-271;
Kentucky Natural Gas Corp. v. *Indiana Gas & Chemical Corporation,* 129 F.2d 17, cert. den. 317 U.S. 678, 63 S.Ct. 161, 87 L.Ed. 544 (1942).

In the light of the foregoing applicable principles it is firmly established that Saverslak, upon Davis-Cleaver's breach was entitled to continue under the license agreement, not being thereby deprived of his right of action against Davis-Cleaver for a breach that had already occurred. But in continuing under the Agreement, Saverslak made an election, and that election consisted only of giving up the right to cease performance on his part because of the existent breach by Davis-Cleaver.

Davis-Cleaver's breach accordingly created a liability for damages that was not discharged by any purported claim of acquiescence, laches or waiver.

CONCLUSION

For the foregoing reasons, this Court should grant a writ of certiorari directing the lower courts to restore the judgment for $220,508.00 and to properly apply the rule of the *Eclipse* case to the best efforts clause and to enter judgment for Petitioner thereon.

Respectfully submitted,

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